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Bell Atlantic

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October 4, 1996

The Honorable Reed E. Hundt
Chairman
Federal Communications Commission
1919 M Street, N.W.
Room 814
Washington, D.C. 20554

Dear Chairman Hundt:

During my testimony before the Federal-State Joint Board on Universal Service on June 21, 1996, during the question and answer portion of the meeting, I was asked to estimate the end-user monthly surcharge necessary to implement Bell Atlantic's Universal Service Education Plan, ***if*** that plan were to include inside wiring for classrooms. Although our plan did not include inside wire, I replied that the monthly surcharge would be approximately 80 cents per end-user bill.

Based on subsequent discussions with members of the Joint Board, I am providing you with the information that reflects how that estimate was derived. I thank you for the opportunity to share Bell Atlantic's views on implementing a meaningful and generous approach to Universal Service as it applies to schools and libraries.

Please contact me at 703 974-1200 if you have any questions or require additional information.

Sincerely,

Edward D. Young

Q: What would the charge on each end-user bill to fund the inside the school connections and outside the school connections (ie, telecom and inside wire) discounts we talked about in the "purchasing power" approach ?

A: The estimate of 80-cents per end-user bill each month was offered orally. It was derived from the following back-of-the-envelope calculations.

a. Estimated Costs for Connecting Public Schools

	Connections			
	Inside	Outside	Total	
Startup costs($B)	5.025	1.715	6.74	(From McKinsey report, pg 57)
Recurring costs	0.41	1.03	1.44	,,

b. Phased in startup and operations at public schools

	Years					
	1997	1998	1999	2000	2001	Total
Ramp up of recurring costs($B)	0.288	0.576	0.864	1.152	1.44	4.32
Spread startup costs	1.348	1.348	1.348	1.348	1.348	6.74

(The idea is that about 20% of the startup would be done in each of the 5 years. A flash cut of all schools being wired in the same year would necessitate a massive balloon payment in the $billions all in a single year and be unworkable. Thus assume 20% of schools would start incurring the recurring costs -- as they became "inside wired".)

c. Adjust to include Private Schools

Total recurring costs ($4.32B) inflated by 40% yeilds $6.048B
Total startup costs ($6.74B) inflated by 40% yeilds $9.436B
(There are about 125,000 k-12 schools in total, of which 85,000 are public schools. The McKinsey estimates were based only on public schools.)

d. Apply discount assumptions

Total "discount" assumption is 75% for startup costs and 50% for recurring costs.
Cost of startup discount is 75% times $9.436B, or $7.077B
Cost of recurring discount is 50% times $6.048B, or $3.024B
For a total public and private schools discount of $10.101B over the 5 years.
(75% and 50% discounts were the policy parameters that the Joint Board might select.)

e. Per end-user bill surcharge

First step; an estimate of the number of monthly end-user telecom bills by the year 2000.
In 1994, there were 142m switched access lines, assume that grows to 150m by 2000.
(These lines are assumed to be billed on about 130m bills today and 140m bills by 2000)
In 1996, there were 30m cellular lines. The growth rate has been 50%/yr, but assume it slows to about 30%/yr for cellular and PCS combined. Thus in 2.5 years (midpoint of the period), there would be about 22.5m additional lines for a total of 52.5m cellular&PCS lines. Assume one bill per "line".
As well there will be millions of separately billed long distance bills. Thus as a ballpark, we can foresee at least 200 million separate end-user bills each month.
And over a 5 year timeframe there would be 5 x 12 months x 200m bills = 12 billion bills

Second step; finding the per-end-user bill surcharge.
$10.101B divided by 12 billion bills = $.84175, or roughly 80 cents.

results in a per-bill surcharge of $0.84175 -- roughly 80 cents.